Saskatchewan Economic and Financial Position

July, 1986

Saskatchewan
Finance

The Hon. J. Gary Lane, Q.C.
Minister of Finance

86-05029/

Report from the Minister of Finance

I am pleased to present the annual summary report on Saskatchewan's economic and financial position.

The Report provides the latest information on Saskatchewan's economic performance for the 1985 calendar year and the government's preliminary financial results for the fiscal year ended March 31, 1986.

Saskatchewan's economic activity increased significantly in 1985 despite a disappointing year for some sectors of the economy.

Drought, grasshoppers and early snows placed considerable strain on the province's farmers and those engaged in farm-related activities. Last year only about 50 per cent of the wheat produced in Saskatchewan was ranked in the top two grades compared with 75 per cent on average over the past 10 years. This decline in quality combined with strong production by importing countries resulted in weak prices and lower volume for Saskatchewan's 1985 grain exports. As a result, the value of grain exports measured in current dollars fell 26.6 per cent in 1985 compared with the previous year. The mineral resources sector also encountered difficult international markets, particularly in the potash industry, where sharply lower prices and a slight drop in the volume of sales drove the current dollar value of potash exports down by 22.2 per cent.

The cumulative effect on Saskatchewan's current dollar exports to the rest of Canada and abroad was a decline of 8.6 per cent to $7,530 million. In constant dollars, exports also declined by 8.6 per cent.

In spite of these problems the Saskatchewan economy showed remarkable strength. Preliminary data indicate that, after adjusting for price changes, Saskatchewan's Gross Domestic Product grew by 3.7 per cent in 1985 following a 1.6 per cent increase in the previous year.

Capital spending was especially strong in 1985. Total investment spending, which includes both private and public sector expenditure on new capital and the repair of existing capital, increased by 5.2 per cent. New capital alone increased by 6.3 per cent. The largest contributor to total private and public investment was mining investment which rose 18.5 per cent last year to $1.2 billion.

The value of Saskatchewan's retail sales rose 8.0 per cent in 1985. Sales growth was held back somewhat as consumers waited until the uncertainty about the drought's impact on income was resolved. However, the fact that Saskatchewan experienced growth in the value of durable goods sales suggests that consumer confidence was strong.

Saskatchewan's inflation performance was better than the Canadian average. Regina's inflation rate in 1985 was 3.7 per cent and Saskatoon's was 3.5 per cent. The average for Canada was 4.0 per cent.

Saskatchewan continued its excellent employment record in 1985. Saskatchewan's average 1985 unemployment rate of 8.1 per cent was more than two percentage points better than the national average making Saskatchewan's rate the second lowest in Canada. Due in part to the government's ongoing emphasis on job creation, Saskatchewan's employment growth in 1985 again exceeded Canada's. Saskatchewan averaged 3.0 per cent growth in the number employed while Canada averaged 2.8 per cent.

Saskatchewan's oil and gas industry continued to expand last year. A record 3,848 oil and gas wells were drilled. This was almost five times higher than the number drilled in 1982. As well, additions to recoverable oil reserves exceeded the level of production for the third year in a row. Crude oil production increased to 72.5 million barrels, the highest level in over 10 years.

The financial results for the government for 1985-86 are a reflection of the economic circumstances of the past year and of the government's determination to take a balanced, responsible approach to deal with these circumstances. Revenues grew by 4.6 per cent to $3,048.5 million while

expenditures grew by 10.2 per cent to $3,632.6 million for a deficit of $584.1 million for 1985-86.

The deficit was larger than originally projected because of depressed international prices for potash, lower than expected dividends from Crown corporations and additional spending required to assist farmers in the face of a second consecutive poor harvest and the continuing cost-price squeeze. In order to reduce non-essential expenditures, the government continued with its expenditure management plan by extending wage restraint and by further reducing the size of the civil service.

Saskatchewan's overall economic outlook for 1986 remains positive. Economic growth is expected to continue, inflation is expected to decline below 1985 levels and the unemployment rate will once again be one of the lowest in the country.

These forecasts take into account uncertainties in two key sectors of the economy, including our most important industry, agriculture.

The Canadian Wheat Board announced early in April that the initial prices for top wheat grades would be set at levels averaging 18.8 per cent below the previous year because of the international market impact of the recently passed U.S. Farm Bill. The Saskatchewan government and the federal government have introduced several initiatives to alleviate some of the effects on Saskatchewan farmers of depressed international prices. However, the basic problem of low world grain prices remains unresolved, underlining again the harmful effects of protectionist policies on Saskatchewan's export-based economy. In this regard, Saskatchewan will continue to press the case for freer trade in every appropriate national and international forum and at the same time examine new options to assist Saskatchewan farmers caught in the cost-price squeeze.

Low international prices also have affected the 1986 outlook for Saskatchewan's oil and gas industry. Had the provincial government not taken action approximately one-half of the province's 13,000 oil wells and one-third of its production might have been shut-in. Saskatchewan's oil and gas industry directly and indirectly employs 15,000 persons and two-thirds of these jobs would have been jeopardized. In order to preserve jobs and to maintain production during the period of low prices, the provincial government implemented a temporary royalty readjustment program in May. Preliminary indications are that the program is working with respect to both production and employment maintenance.

The resilience of Saskatchewan's economy is due, in part, to the economic development plan initiated by this government in 1982. We recognized that we had to build upon the traditional strengths of the province - our rich resource base, a high level of technology in key economic sectors, a skilled and motivated work force and an entrepreneurial spirit.

The economic development plan has three basic components:

- create a positive climate for economic growth;
- build on those sectors of the economy where we have natural advantages; and
- encourage public participation.

Changes to the oil royalty tax structure, the Aid to Trade Program, the Advanced Technology Training Centre, the Venture Capital Program; the NewGrade Upgrader, the Rafferty and Alameda Dams and Shand Power project; the sale of Sask Power and Saskoil bonds and Saskoil shares are but a few of the successful initiatives that have been undertaken based on these general principles.

In 1986, this economic development plan continues to provide the framework for expanded economic activity creating in the process permanent and productive jobs.

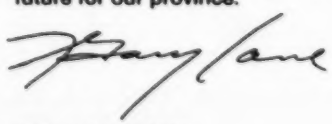
In recognition of the fact that the small businesses are responsible for the creation of the majority of new jobs in the province, the 1986 Budget announced a number of new initiatives to assist small businesses. These initiatives include a two-year corporate tax holiday for new small businesses, an 8 per cent interest program for small business, a Stock Savings Plan, a one-year extension to the Industrial Incentive Program, extensions to the Venture Capital Program, financial assistance for Community Development Corporations and an Entrepreneur Training Program.

In order to provide additional protection to our citizens and to strengthen further our social institutions, the 1986 Budget also included major increases in health and education spending, a new approach to funding day care centres in the province and an exemption of all clothing and footwear valued under $300 from the sales tax. As promised in the Budget Address, the government recently established the Saskatchewan Pension Plan. The Plan will offer additional retirement security to the people of Saskatchewan and, in particular, to those individuals such as homemakers, small business employees, part-time and self-employed workers who are making valuable contributions to society, but who have not been given the opportunity to adequately save for their retirement.

The Saskatchewan Pension Plan is an important milestone on the road towards ensuring that all Saskatchewan residents will be able to retire with individual financial security. And it once again demonstrates Saskatchewan's ability to be a national leader in the development of social programs that protect and enhance the security of Saskatchewan people.

In summary, Saskatchewan achieved satisfactory economic growth in 1985 and can look forward to an even better performance in 1986. Over the longer term Saskatchewan's economic prospects are extremely favorable based on the resilience shown by the economy during the recent cyclical downturn.

Saskatchewan's fundamental economic strengths coupled with government policies that encourage and support the aspirations of Saskatchewan people promise a tremendous future for our province.



J. Gary Lane, Q.C.
Minister of Finance

Economic Highlights

Gross Domestic Product

Saskatchewan's Gross Domestic Product at market prices, which measures the total value of goods and services produced in the province, was $18,043 million in 1985, an increase of 5.5 per cent over the 1984 level.

After adjusting for price changes, Saskatchewan's real Gross Domestic Product in 1985 was $5,584 million. This represented an increase of 3.7 per cent over the 1984 level. Real Gross Domestic Product increased by 1.6 per cent in 1984.

Increases in the real value of the physical change in farm inventories and in consumer spending were the largest sources of the increase in real Gross Domestic Product between 1984 and 1985. Following a depletion in farm inventories in 1984, as farmers attempted to compensate for lower production that year, a combination of higher production and lower deliveries of some major crops permitted 1985 additions to farm inventories. The real increase in personal expenditure on goods and services occurred as consumer confidence was regained following improved 1985 crop production.

The measures of change in Saskatchewan's real Gross Domestic Product reported here differ from the figures of 0.8 per cent for 1984 and 4.3 per cent for 1985 presented in the March, 1986 Budget Address. The differing 1984 estimate arises from revisions to data provided by Statistics Canada and by other sources, particularly investment and trade data. The revised 1985 growth estimate may be attributed largely to slightly weaker real growth than originally anticipated in consumer spending and in the value of the physical change in farm inventories.

The 1985 Gross Domestic Product estimates reported in this publication are based on preliminary data and are subject to revision.

Personal Income

Total personal income was $14,343 million, an increase of 10.5 percent over 1984. This represents a 9.4 per cent increase on a per capita basis.

The largest component of personal income, wages, salaries and supplementary labour income, increased 4.0 per cent in 1985. Net income received by farm operators from farm production, which includes the value of changes occurring in farm livestock and crop inventories, rose by 177.6 per cent last year as inventory accumulation resumed in conjunction with a recovery in major crop production.

Consumer Prices

Regina's inflation rate, as measured by the change in the Consumer Price Index, averaged 3.7 per cent in 1985. This was below Regina's average 1984 Consumer Price Index inflation rate of 4.4 per cent. For Saskatoon the corresponding increase in 1985 was 3.5 per cent, unchanged from 1984. The average 1985 Consumer Price Index increase for both Saskatchewan cities fell below the 4.0 per cent increase for Canada.

Population and Labour Force

Saskatchewan's population on June 1, 1985 was 1,017,800, a net increase of 10,900 persons above the June 1, 1984 level of 1,006,900. The province's percentage population increase of 1.1 per cent in 1985 exceeded national average population growth for the year.

Total Saskatchewan employment increased by 13,000 persons last year to 452,000, up from the 1984 level of 439,000. At the same time, the provincial labour force increased by 14,000 persons to 491,000. The percentage increases in Saskatchewan's employment and labour force during 1985 were both larger than those for Canada.

As Saskatchewan's labour force increased more than employment in 1985, the unemployment rate increased from 8.0 per cent to 8.1 per cent last year, but it remained well below the 1985 national average of 10.5 per cent.

Agriculture

Production of the 6 major grains and oilseeds rose 17.1 per cent in 1985, to 19.1 million tonnes, but poor harvesting weather significantly reduced the quality of the 1985 crop. Despite substantial increases in payouts from the Western Grain Stabilization Fund and Crop Insurance, cash receipts from all crop sales declined 7.3 per cent last year to $3,274 million. Abetted by weak hog prices and a drop in cattle marketings, cash receipts from the sale of livestock and livestock products fell 6.2 per cent to $720 million. Total farm cash receipts from both crop and livestock sales fell to $4,028 million in 1985, a decline of 6.8 per cent.

As operating and depreciation charges increased 2.8 per cent in 1985, realized net farm income, the basic measure of farmers' cash flow, fell to $701 million, a decrease of 34.5 per cent.

Minerals

The total value of mineral sales rose to $3,813 million in 1985, an increase of 4.4 per cent. The value of oil and uranium sales increased by 10.7 per cent and 29.7 per cent, respectively. The value of potash sales declined by 22.2 per cent.

Oil and gas exploration activity continued at a record-setting pace in 1985. A total of 3,848 new wells were drilled in 1985 breaking the previous record high of 2,970 wells set in 1984.

Trade with the Rest of Canada and Abroad

Grains, crude oil and potash are Saskatchewan's principal exports, accounting for 31.9 per cent, 28.8 per cent and 8.6 per cent, respectively, of the current dollar value of the province's total exports to other parts of Canada and abroad. Low volume and average price characterized Saskatchewan's 1985 grain exports. The value of grain exports measured in current prices fell 26.6 per cent last year; measured in constant 1971 dollar prices, it fell 21.2 per cent. The declines coincided with limited availability of high quality grains and strong production by importing countries. Increased export volumes

pushed the current dollar value of oil exports up by 7.3 per cent. After adjusting for price changes, they rose by 5.5 per cent. A combination of sharply lower prices and a slight drop in sales drove the current dollar value of potash exports down by 22.2 per cent, while real potash exports fell by 8.2 per cent. Total Saskatchewan current dollar exports to the rest of Canada and abroad declined 8.6 per cent to $7,530 million in 1985. After adjusting for price changes, they declined 8.6 per cent to $1,844 million.

Following a decline in 1984, the current dollar value of Saskatchewan's total imports from the rest of Canada and abroad increased 7.1 per cent in 1985, to $7,037 million, and total real imports rose 3.5 per cent to $2,059 million.

Manufacturing and Retail Trade

The estimated value of manufacturing shipments increased by 0.8 per cent to $2,874 million. The value of retail trade in the province rose 8.0 per cent in 1985, to $4,704 million.

Private and Public Investment

The value of private and public investment rose 5.2 per cent to a total of $5,246 million in 1985. New capital investment rose 6.3 per cent to $3,894 million, while repair and maintenance spending increased 2.3 per cent to $1,352 million.

The agriculture and mining sectors together accounted for 42.9 per cent of the total private and public investment in Saskatchewan last year. Investment spending in agriculture fell 4.1 per cent to $1,044 million in 1985, reflecting the year's decline in realized net farm income. Total investment in the mining sector rose by 18.5 per cent to $1,206 million.

Saskatchewan Economic Statistics

Calendar Year	1981	1982	1983	1984	Preliminary 1985
Gross Domestic Product- Current Prices - Millions of Dollars					
Personal Expenditure on Goods and Services	7,215	7,789	8,361	8,600	9,253
Government Expenditure on Goods and Services	2,475	2,887	3,166	3,353	3,544
Gross Fixed Capital Formation	4,052	3,570	3,855	3,799	4,083
Value of Physical Change in Inventories					
Non-Farm	149	(266)	37	245	70
Farm Inventories and Grain in Commercial Channels	369	154	(192)	(751)	313
Exports of Goods and Services	6,627	6,867	7,208	8,238	7,530
Minus: Imports of Goods and Services	6,383	6,247	6,604	6,573	7,037
Total Expenditure	14,505	14,755	15,832	16,909	17,756
Residual Error of Estimate	283	220	153	186	288
Gross Domestic Product	14.787	14.975	15.985	17.096	18.043
Annual Rate of Change (Per Cent)	14.1	1.3	6.7	6.9	5.5
Per Capita Gross Domestic Product (Current Dollars)	15,271	15,295	16,088	16,979	17,728
Gross Domestic Product- Millions of Constant 1971 Dollars					
Personal Expenditure on Goods and Services	3,154	3,107	3,151	3,130	3,230
Government Expenditure on Goods and Services	905	931	941	944	953
Gross Fixed Capital Formation	1,626	1,331	1,394	1,359	1,401
Value of Physical Change in Inventories					
Non-Farm	37	(95)	(3)	73	24
Farm Inventories and Grain in Commercial Channels	100	41	(54)	(212)	102
Exports of Goods and Services	1,649	1,799	1,886	2,018	1,844
Minus: Imports of Goods and Services	2,270	2,017	2,070	1,989	2,059
Total Expenditure	5,201	5,097	5,245	5,323	5,495
Residual Error of Estimate	101	76	51	59	89
Real Gross Domestic Product	5,303	5,174	5,296	5,382	5,584
Annual Rate of Change (Per Cent)	5.5	(2.4)	2.4	1.6	3.7
Per Capita Gross Domestic Product (1971 Dollars)	5,476	5,284	5,330	5,345	5,486
Gross Domestic Product at Factor Cost by Industry- Current Prices - Millions of Dollars					
Agriculture	2,352	2,398	1,990	1,817	2,179
Forestry	26	26	37	42	39
Mining	1,466	1,129	1,574	2,129	2,269
Construction	780	715	821	760	745
Total Primary Industries and Construction	4,623	4,269	4,423	4,748	5,232
Manufacturing	955	866	825	927	941
Transportation, Communications and Storage	1,019	1,089	1,169	1,279	1,352
Utilities	298	364	358	420	457
Trade	1,403	1,472	1,484	1,584	1,683
Finance, Insurance and Real Estate	1,715	1,892	2,497	2,713	2,969
Services	2,230	2,485	2,635	2,862	3,069
Public Administration	1,308	1,468	1,567	1,680	1,719
Gross Domestic Product at Factor Cost	13,551	13,905	14,958	16,214	17,422
Indirect Taxes Less Subsidies	1,519	1,291	1,180	1,068	909
Residual Error of Estimate	(283)	(220)	(153)	(186)	(288)
Gross Domestic Product	14,787	14,975	15,985	17,096	18,043

Calendar Year	1981	1982	1983	1984	Preliminary 1985
Trade with the Rest of Canada and Abroad - Current Prices - Millions of Dollars					
Exports					
Grain	2,689	3,128	3,193	3,273	2,403
Crude Oil	1,249	1,418	1,706	2,017	2,165
Potash	995	643	686	829	645
Manufactured Goods to Rest of Canada	771	766	806	877	885
Other	922	913	817	1,241	1,434
Total Exports	6,627	6,867	7,208	8,238	7,530
Imports					
Crude Oil	294	336	341	367	386
Natural Gas	160	180	179	174	140
Manufactured Goods from Rest of Canada	2,392	2,300	2,503	2,836	3,050
Other	3,537	3,431	3,580	3,196	3,461
Total Imports	6,383	6,247	6,604	6,573	7,037
Trade with the Rest of Canada and Abroad - Millions of Constant 1971 Dollars					
Exports					
Grain	696	906	939	935	737
Crude Oil	112	125	143	164	173
Potash	261	206	267	257	236
Manufactured Goods to Rest of Canada	281	263	268	279	274
Other	299	299	269	384	424
Total Exports	1,649	1,799	1,886	2,018	1,844
Imports					
Crude Oil	41	36	29	31	30
Natural Gas	10	10	10	9	8
Manufactured Goods from Rest of Canada	878	796	838	912	956
Other	1,341	1,175	1,193	1,037	1,066
Total Imports	2,270	2,017	2,070	1,989	2,059
Value of Mineral Sales - Millions of Dollars					
Oil	821	1,292	1,772	2,164	2,395
Potash	995	643	686	829	645
Uranium	258	251	121	354	459
Other	167	195	232	304	314
Total Value of Mineral Sales	2,241	2,381	2,811	3,651	3,813
Volume of Mineral Sales					
Oil - Thousands of Cubic Metres	7,409	8,128	9,526	10,758	11,500
Potash - Thousands of Tonnes	6,357	5,087	6,599	6,998	6,403
Uranium - Thousands of Kilograms	3,123	3,213	1,621	5,852	7,296

Saskatchewan Economic Statistics (cont.)

Calendar Year	1981	1982	1983	1984	Preliminary 1985
Personal Income - Millions of Dollars					
Wages, Salaries and Supplementary Labour Income	5,972	6,536	6,946	7,367	7,662
Net Income Received by Farm Operators from Farm Production	1,606	1,069	664	312	866
Other Income	3,870	4,525	4,820	5,296	5,815
Total Personal Income	11,448	12,129	12,430	12,975	14,343
Farm Income - Millions of Dollars					
Farm Cash Receipts	3,954	4,003	3,963	4,320	4,028
Income in Kind and Supplementary Payments	96	49	39	70	85
Realized Gross Farm Income	4,050	4,052	4,003	4,390	4,112
Minus: Operating and Depreciation Charges	2,908	3,072	3,251	3,319	3,412
Realized Net Farm Income	1,142	980	751	1,070	701
Value of Inventory Change	434	121	(171)	(720)	171
Total Net Income of Farm Operators from Farm Production	1,575	1,101	580	350	872
Minus: Amounts Included in Other Components of Gross Domestic Product and Transfers to Persons	32	27	25	27	28
Plus: Inventory Adjustments	24	(27)	86	1	22
Minus: Revisions Not Yet Incorporated in Provincial Accounts	(38)	(22)	(23)	11	0
Net Income Received by Farm Operators from Farm Production	1,606	1,069	664	312	866
Population and Labour Force - Thousands of Persons					
Population as of June 1	968	979	994	1,007	1,018
Labour Force	446	455	470	477	491
Participation Rate (Per Cent)	63.5	63.9	65.2	65.1	66.4
Employed	425	426	436	439	452
Unemployed	21	28	35	38	40
Unemployment Rate, Saskatchewan (Per Cent)	4.7	6.2	7.4	8.0	8.1
Unemployment Rate, Canada (Per Cent)	7.5	11.0	11.9	11.3	10.5
Consumer Price Index - Annual Percentage Change					
Regina	11.7	9.0	6.4	4.4	3.7
Saskatoon	11.7	9.0	6.3	3.5	3.5
Canada	12.5	10.8	5.8	4.4	4.0
Private and Public Investment - Millions of Dollars					
New Capital Investment					
Construction	2,192	2,058	2,231	2,133	2,436
Machinery and Equipment	1,835	1,434	1,514	1,531	1,459
Total New Capital Investment	4,027	3,492	3,745	3,664	3,894
Repair and Maintenance	1,124	1,178	1,228	1,322	1,352
Total Private and Public Investment	5,151	4,670	4,973	4,986	5,246
Other					
Value of Manufacturing Shipments - Millions of Dollars	2,504	2,489	2,619	2,850	2,874
Value of Retail Trade - Millions of Dollars	3,876	4,042	4,357	4,354	4,704
Housing Starts - Units	5,972	6,822	7,269	5,221	5,354
Electric Power Generated - Millions of Kilowatt Hours	9,683	9,846	10,389	11,828	11,464

Note: Components may not add to totals due to rounding.
Sources: Saskatchewan Bureau of Statistics, Saskatchewan Energy and Mines, Statistics Canada

Financial Highlights

1985-86 Fiscal Year Preliminary Results

Summary of Fiscal Position

The preliminary results for the 1985-86 fiscal year indicate that Combined Funds revenue amounted to $3,048.5 million, while Combined Funds expenditure totalled $3,632.6 million. This produced a Combined Funds deficit for 1985-86 of $584.1 million.

Receipts for loans, investments and deposits totalled $536.8 million in 1985-86. Disbursements totalled $2,016.0 million, for a shortfall of $1,479.2 million. Total cash requirements for 1985-86 therefore reached $2,063.3 million.

Revenues and Expenditures

Combined Funds revenues grew by 4.6 per cent in 1985-86 to $3,048.5 million. Strength in revenues was particularly noted in the tax bases as total provincial tax revenues grew by 10.4 per cent. Individual income tax revenues grew by 13.7 per cent over the year, while corporation capital tax revenue increased by 9.5 per cent. Own source oil revenues remained at approximately the same level as for the previous two years although a drop in revenues from the Crude Oil Export Charge transfer from the federal government was experienced with the convergence of world and domestic crude oil prices. Potash revenues fell significantly as softness in world prices continued and as overpayments made by potash producers in 1984-85 were returned. Strength was experienced in uranium revenues, which grew by 44.1 per cent in 1985-86 compared with 1984-85 as the Key Lake Mine, the world's largest, began operating near capacity.

Combined Funds expenditures grew by 10.2 per cent in 1985-86, to $3,632.6 million. The increase was caused by a number of factors, particularly greater support provided to Saskatchewan farmers in response to the difficult economic and environmental conditions experienced by the agricultural sector. Expenditures were restricted wherever possible by extending wage restraint, by further reducing the size of the civil service and by not providing spending increases to 29 of the 39 departments and agencies of government.

Financing and Debt Management

During fiscal year 1986, gross debt outstanding in the name of the Province increased by $1,971.9 million (Canadian funds equivalent). This increase was comprised of $497.5 million required by the Province to finance the deficit and provide additional working capital, $1,455.9 million (net of redemptions) borrowed by the Province on behalf of the Crown corporations and $18.5 million resulting from a change in foreign exchange rates. The Crown corporations are responsible for repayment in full of interest and principal on such borrowings.

Debentures sold during fiscal year 1986 amounted to $707.1 million (Canadian equivalent), comprised of $594.6 million in medium-term debentures issued in public markets and $112.5 million in long-term instruments issued to the Minister of Finance of Canada. Proceeds of these issues were directed to Crown corporations in the amount of $436.6 million (Canadian equivalent) to assist in meeting their capital investment needs, and to the Saskatchewan Government in the amount of $270.5 million.

Debentures redeemed in fiscal year 1986 amounted to $116.3 million. Contributions to the Province's sinking funds totalled $20.7 million in fiscal year 1986, of which $20.2 million was contributed by Crown corporations in respect of the debt incurred by the Province for the purposes of those corporations and $0.5 million was contributed by the Province in respect of debt incurred for its own purposes.

Treasury bills and promissory notes outstanding increased by $1,362.5 million in fiscal year 1986. This increase was comprised of $230.6 million borrowed by the Province for its own needs and $1,131.9 million borrowed for the needs of Crown corporations. The increase for Crown corporations was largely attributable to the Agricultural Credit Corporations's Production Loan Program, which provided a total of $1,047 million in low cost loans to Saskatchewan farmers in fiscal year 1986.

In addition to these borrowing activities in fiscal year 1986, the Saskatchewan Power Corporation issued the second series of Saskatchewan Power Savings Bonds for Saskatchewan residents. These bonds were unconditionally guaranteed by the Province. The size of the issue was originally set at $60 million but was extended to $91 million due to strong public demand.

Assets, Liabilities and Equity

Total Combined Funds assets reached $7,482.2 million at March 31, 1986, up 22.6 per cent over the previous year. This change was attributable mainly to a substantial increase in medium- and long-term loans to Crown entities, which went up from $4,632.6 million in 1984-85 to $6,046.0 million in 1985-86.

Combined funds liabilities reached $8,128.1 million at March 31, 1986, compared with $6,168.0 million for the previous year. This increase was a reflection first of the debt incurred on behalf of the Crown entities and, secondly, of new borrowings undertaken to provide for the 1985-86 deficit and for working capital needs.

Combined Funds equity at March 31, 1986 was $(645.9 million).

1986-87 Budget Estimates

The Saskatchewan Budget Estimates for 1986-87 project a Combined Funds revenue of $3,358.7 million and Combined Funds expenditure of $3,747.9 million for a combined deficit of $389.2 million.

The 1986-87 Budget contains a commitment to introduce a Saskatchewan Pension Plan. The Plan will offer additional retirement security to those individuals such as homemakers, small business employees, and part-time and self-employed workers who are making a valuable contribution to society, but who have been unable to participate in employer-sponsored pension plans. The Budget also announced the exemption of all clothing under $300 from the sales tax, a new approach to funding day care centres in the province, major spending increases in health and education and a program providing $3,000 grants to families buying their first new home.

In recognizing the important role that small business has played in the creation of new jobs, the Budget outlined several new initiatives to enhance small business opportunities. The Budget announced an 8 per cent interest program for small business, a two-year corporate tax holiday for new small business, extensions to the Venture Capital Program, the creation of the Labour-sponsored Venture Capital Program, a Stock Savings Plan, a one-year extension of the Industrial Incentive Program, financial assistance for Community Development Corporations and an Entrepreneur Training Program.

Two additional Crown corporations have been established. The Agriculture and Commercial Equity Corporation will invest in diverse agricultural, resource and industrial sectors and will participate in or initiate joint ventures on major capital projects. The corporation will provide a major ongoing stimulus for economic development. It will establish a highly viable centre of corporate management expertise in the province and significantly enhance Saskatchewan's image in the Canadian business sector.

The Property Management Corporation, which is modelled after similar corporations in British Columbia, Quebec, and Manitoba, will acquire, manage and finance government land and buildings. Because these functions will be centralized in one commercial Crown corporation, expenditures will be controlled and maximum efficiencies achieved.

Another efficiency measure announced in the budget was the further reduction in the civil service by more than 300 positions. The government also will be examining the possibility of a more formal capital budget approach. As well, it will be maintaining close scrutiny of all expenditures by departments throughout the year and is committed to achieving a balanced budget in five years.

In terms of revenue generation, the tobacco tax rate was increased from $0.77 to $1.02 per package of 25 cigarettes and the large business corporate income tax rate was increased from 16 per cent to 17 per cent of corporate taxable income. In addition, the general corporate capital tax rate was increased from 0.3 per cent to 0.5 per cent, although banks will have to pay at a rate of 3.0 per cent, up from 2.0 per cent, and trust and loan companies at 1.2 per cent, up from 0.8 per cent.

The Saskatchewan Government's financing program for 1986-87 is estimated at $1,616.9 million, of which $1,227.7 million will be borrowed on behalf of the Crown corporation. The financing program is projected at approximately $336 million less than the preliminary actual total of $1,953.4 million for 1985-86.

With respect to sources of funds, the 1986-87 budget plan states that $120 million will be obtained from the Canada Pension Plan Investment Fund, leaving $1,496.9 million to be raised in various capital markets.

Government of the Province of Saskatchewan
Combined Funds
Statement of Financial Position

Assets	At March 31 1982	1983	1984	1985	Preliminary 1986
	(Thousands of Dollars)				(unaudited)
Cash and Short-Term Investments (Note 1e)	$ 182,849	$ 54,743	$ 122,607	$ 130,395	$ 23,723
Short-Term Loans to Crown Entities (Note 1f)	101,575	117,400	260,356	202,554	199,225
Medium and Long-Term Loans to Crown Entities (Note 1g)	3,145,460	4,087,154	4,167,314	4,632,562	6,046,000
Other Loans (Note 1h)	25,583	31,484	34,286	128,196	280,857
Loan to Saskatchewan Agricultural Returns Stabilization Fund (Note 1i)	6,115	28,806	28,418	3,374	23,390
Investments in Crown Entities (Note 1j)	818,245	849,903	838,730	838,730	747,230
Investment in Agricultural Land and Related Assets (Note 1k)	—	—	166,184	163,881	159,302
Working Capital Advances	164,294	—	—	—	—
Investments in Other Enterprises (Note 1l)	632	620	603	3,034	2,497
Total Assets	$4,444,753	$5,170,110	$5,618,498	$6,102,726	$7,482,224
Liabilities and Province's (Net Debt) Equity					
Public Debt (Note 1m)					
Promissory Notes (Note 1m)	$ 113,000	$ 50,000	$ 297,000	$ 612,000	$1,780,600
Treasury Bills (Note 1m)	140,446	333,524	451,500	459,540	653,400
Debentures (Note 1m)	3,334,126	4,304,004	4,710,987	5,356,713	5,965,624
Less: Sinking Funds (Note 1m)	287,852	314,595	310,676	353,205	408,712
	3,299,720	4,372,933	5,148,811	6,075,048	7,990,912
Amounts Payable to Crown Entities (Note 1n)	47,673	80,874	117,484	86,819	127,621
Conditional Receipts (Note 1o)	5,482	4,730	6,547	6,167	9,575
	3,352,875	4,458,537	5,272,842	6,168,034	$8,128,108
Province's (Net Debt) Equity	1,091,878	711,573	345,656	(65,308)	(645,884)
Total Liabilities and Province's (Net Debt) Equity	$4,444,753	$5,170,110	$5,618,498	$6,102,726	$7,482,224

(see accompanying notes)

Government of the Province of Saskatchewan
Combined Funds
Statement of Province's (Net Debt) Equity

	For the Year Ended March 31				
	1982	1983	1984	1985	Preliminary 1986
			(Thousands of Dollars)		(unaudited)
Province's Equity, Beginning of Year	$ 951,569	$1,091,878	$ 711,573	$ 345,656	$ (65,308)
Excess of Revenue Over Expenditure	139,208	(227,175)	(331,394)	(379,796)	(584,121)
Sinking Fund Earnings Retained in Sinking Funds	1,172	1,658	2,517	2,443	3,842
Write-down of Short-Term Investments	—	—	—	(1,221)	—
Provision for Doubtful Accounts in Respect of Other Loans	—	—	(3,171)	(103)	—
Loss on Sale of Land	—	—	(4)	(45)	(287)
Write-off of Other Loans	(71)	(29)	(200)	(31)	(10)
Valuation Provision in Respect of the Loan to the Saskatchewan Agricultural Returns Stabilization Fund (Note 1i)	—	—	(15,581)	(32,211)	—
Deficiency Arising from the Transfer of the Assets and Liabilities of the Saskatchewan Land Bank Commission	—	—	(13,657)	—	—
Deficiency Arising from the Transfer of the Assets and Liabilities of the Saskatchewan Universities Commission	—	—	(4,427)	—	—
Write-off of Working Capital Advances (Note 1q)	—	(154,759)	—	—	—
Province's (Net Debt) Equity, End of Year	$1,091,878	$ 711,573	$ 345,656	$ (65,308)	$ (645,884)

(see accompanying notes)

Government of the Province of Saskatchewan
Combined Funds
Statement of Revenue and Expenditure

Revenue	1982	1983	1984	1985	Preliminary 1986
	For the Year Ended March 31				
	(Thousands of Dollars)				(unaudited)
Provincial Taxes					
Corporation Capital	$ 19,522	$ 24,222	$ 28,985	$ 27,885	$ 30,530
Corporation Income	93,111	87,312	132,205	121,454	126,911
Fuel	120,687	15,046	13,593	32,108	30,723
Individual Income	511,684	683,223	565,209	554,260	630,359
Insurance	10,126	10,894	16,477	17,472	17,318
Mineral Acreage	3,755	3,762	3,765	3,762	3,353
Sales	317,102	312,005	340,325	345,014	374,296
Tobacco	30,595	35,421	48,823	59,967	70,391
Other Taxes	5,409	6,015	6,030	6,033	5,752
Total Provincial Taxes	1,111,991	1,177,900	1,155,412	1,167,955	1,289,633
Receipts from Government Enterprises and Other Funds					
Dividend from Crown Investments Corporation of Saskatchewan	50,000	42,000	—	—	25,000
Profits Transferred from Saskatchewan Housing Corporation	—	—	—	20,074	6,161
Saskatchewan Liquor Board	49,000	110,000	79,000	71,000	84,000
Other Receipts	7,626	6,931	5,447	9,374	4,498
Total Receipts from Government Enterprises and Other Funds	106,626	158,931	84,447	100,448	119,659
Other Own Source Revenues					
Agricultural Lands					
Land Sales	—	—	11,883	8,862	9,795
Lease Revenue	—	—	8,176	9,053	10,331
Interest and Other	—	—	276	702	924
Fines, Forfeits, and Penalties	6,317	6,079	7,380	7,557	7,134
Interest, Premium, Discount, and Exchange	31,885	32,387	23,248	23,115	25,702
Non-Renewable Resources					
Coal	7,937	10,988	15,775	17,438	10,688
Natural Gas	672	1,010	4,595	9,652	13,332
Oil	368,728	482,889	640,322	645,625	638,661
Crude Oil Export Charge	163,984	217,394	44,212	94,732	35,276
Potash	185,000	36,871	39,702	71,177	32,592
Sodium Sulphate	1,550	1,618	1,696	1,393	1,190
Uranium	29,933	24,403	11,117	25,169	36,269
Other	880	619	599	435	978
Privileges, Licences, and Permits					
Lands, Forests, Game, Fur, Fisheries, and Water	18,950	19,867	9,956	10,032	10,072
Motor Vehicles	41,590	45,314	54,187	57,346	60,282
Other	5,591	5,866	7,433	8,015	10,298
Sales, Services and Service Fees	27,139	28,796	34,656	38,359	63,834
Other Revenues	19,436	23,204	20,716	20,465	19,636
Total Other Own Source Revenues	909,592	937,305	935,929	1,049,127	986,994
Receipts from Other Governments					
Agricultural and Rural Development Act	3,458	2,173	261	345	538
Canada Assistance Plan	86,760	123,257	139,766	143,667	149,131
Department of Regional Industrial Expansion	21,389	5,158	6,900	2,665	531
Equalization Payment (Note 2b)	110,053	(31,837)	(22,913)	(22,913)	(22,913)
Established Programs Financing	274,854	272,018	372,648	420,181	445,063
Manpower Agreements	14,591	16,362	19,877	28,605	21,611
Statutory Subsidy	2,159	2,140	2,160	2,178	2,175
Other Federal Contributions	15,981	19,032	33,075	15,568	46,947
Other Receipts	6,248	8,687	5,931	7,732	9,133
Total Receipts from Other Governments	535,493	416,990	557,705	598,028	652,216
Total Revenue	$2,663,702	$2,691,126	$2,733,493	$2,915,558	$3,048,502

(see accompanying notes)

Government of the Province of Saskatchewan
Combined Funds
Statement of Revenue and Expenditure

Expenditure	For the Year Ended March 31				
	1982	1983	1984	1985	Preliminary 1986
		(Thousands of Dollars)			(unaudited)
Advanced Education and Manpower	$ 183,688	$ 202,863	$ 231,509	$ 257,104	$ 253,131
University Renewal and Development Fund	—	—	—	—	644
Agriculture	76,067	86,176	87,817	130,624	214,095
Agriculture Development Fund	—	—	—	—	7,107
Consumer and Commercial Affairs	4,389	5,320	5,136	5,667	5,419
Co-operation and Co-operative Development	2,989	3,278	2,879	2,865	2,978
Culture and Recreation	18,362	14,030	16,716	20,992	18,838
Economic Development and Trade	11,241	11,710	5,726	11,317	7,785
Education	328,250	388,727	415,087	378,983	416,166
Education Development Fund	—	—	—	—	7,428
Employment Development Agency	—	—	—	222	2,324
Employment Development Fund	—	—	—	—	99,774
Energy and Mines	72,039	74,572	51,930	39,493	35,507
Environment	9,683	9,129	8,173	10,554	7,172
Executive Council	4,601	10,046	7,158	6,904	6,877
Finance: Other	26,766	53,767	27,700	24,736	38,922
Interest on Public Debt (Note 1p)	43,337	41,655	56,513	102,470	190,322
Health	617,948	732,928	964,808	1,013,316	1060,820
Health Capital Fund	—	—	—	—	6,593
The Highway Traffic Board	9,803	11,527	—	—	—
Highways and Transportation	191,474	191,765	213,725	208,524	216,334
Indian and Native Affairs Secretariat	—	—	4,831	4,459	2,423
Intergovernmental Affairs	1,856	4,941	64	—	—
Justice	54,027	67,345	102,954	107,955	104,776
Labour	10,273	11,361	9,431	9,527	10,170
Legislation	7,178	8,353	9,351	9,386	10,476
The Local Government Board	365	408	389	432	417
Local Government Finance Commission	—	—	—	—	416
Northern Affairs Secretariat	—	—	—	355	544
Department of Northern Saskatchewan	120,882	56,950	17,691	—	—
Parks and Renewable Resources	38,314	53,234	55,470	70,166	61,719
Provincial Auditor	2,476	3,168	3,223	3,604	3,587
Provincial Library	6,365	7,095	7,434	7,578	7,822
Provincial Secretary	442	570	569	605	714
Public Employees Benefits Agency	22,667	34,582	—	—	—
Public and Private Rights Board	67	74	86	—	—
Public Service Commission	4,719	5,458	6,094	6,293	6,492
Revenue and Financial Services	47,085	47,821	72,525	117,506	121,646
Rural Development	43,594	49,314	51,368	53,847	53,812
The Saskatchewan Assessment Authority	2,791	4,253	4,726	5,668	5,678
Saskatchewan Crop Insurance Corporation	—	—	1,000	9,238	18,250
Saskatchewan Housing Corporation	—	—	—	—	33,510
The Saskatchewan Research Council	3,065	3,519	3,876	4,431	4,317
Saskatchewan Water Corporation	—	—	—	—	24,715
Science and Technology	—	—	201	2,448	3,966
Social Services	319,070	443,552	302,359	328,444	340,583
Supply and Services	62,410	70,471	90,879	92,072	92,133
Surface Rights Arbitration Board	129	161	166	—	—
Department of Telephones	88	77	307	125	198
Tourism and Small Business	—	—	4,955	22,608	14,495
Transportation Agency of Saskatchewan	897	588	—	—	—
Urban Affairs	175,097	207,513	220,021	224,553	111,225
Women's Secretariat	—	—	40	283	303
Total Expenditure	$2,524,494	$2,918,301	$3,064,887	$3,296,354	$3,632,623
Excess of Revenue over Expenditure (Expenditure over Revenue)	$ 139,208	$ (227,175)	$ (331,394)	$ (379,796)	$ (584,121)

(see accompanying notes)

Government of the Province of Saskatchewan
Combined Funds
Statement of Loan, Investment and Deposit Activity

Receipts	1982	1983	1984	1985	Preliminary 1986
	For the Year Ended March 31				
	(Thousands of Dollars)				(unaudited)
Loans					
Saskatchewan Municipal Financing Corporation	$ —	$ —	$ 10,000	$ —	$ —
Saskatchewan Grain Car Corporation	1,834	1,833	—	4,984	—
Potash Corporation of Saskatchewan	25,000	25,000	25,000	5,000	18,400
Saskatchewan Economic Development Corporation	12,000	—	—	—	23,500
Saskatchewan Housing Corporation	—	—	8,000	—	—
Saskatchewan Oil and Gas Corporation	—	—	—	—	25,000
Saskatchewan Power Corporation	9,573	39,169	65,649	11,604	9,636
Saskatchewan Telecommunications	3,031	1,795	41,860	—	7,793
Crown Investments Corporation	15,000	—	—	—	51,500
Saskatchewan Agricultural Returns Stabilization Fund	—	2,795	880	1,600	2,350
Loan Sales and Agreements	—	—	—	621	848
Other	41,576	51,817	53,723	57,742	149,476
Total Loan Receipts	108,014	122,409	205,112	81,551	288,503
Investments					
Crown Investments Corporation of Saskatchewan	6,000	—	—	—	—
Saskatchewan Housing Corporation	—	—	11,173	—	—
Saskatchewan Oil and Gas Corporation	—	—	—	—	91,500
Investment in Agricultural Land and Related Assets:					
Recovery of Investment	—	—	83	2,880	4,872
Recovery of Principal on Land Sales	—	—	1,811	—	—
Other	12	12	18	18	778
Total Investment Receipts	6,012	12	13,085	2,898	97,150
Deposits					
Crown Entities	91,237	143,594	150,785	129,778	127,556
Sinking Fund	22,277	21,587	23,600	21,178	20,193
Conditional Receipts	216	—	1,555	—	3,407
Total Deposit Receipts	113,730	165,181	175,940	150,956	151,156
Total Receipts	$ 227,756	$ 287,602	$ 394,137	$ 235,405	$ 536,809

(see accompanying notes)

Government of the Province of Saskatchewan
Combined Funds
Statement of Loan, Investment and Deposit Activity

	For the Year Ended March 31				
Disbursements	**1982**	**1983**	**1984**	**1985**	**Preliminary 1986**
	(Thousands of Dollars)				(unaudited)
Loans					
Saskatchewan Municipal Financing Corporation	$ 10,000	$ —	$ —	$ 54,723	$ —
Potash Corporation of Saskatchewan	92,033	123,390	80,000	—	160,517
Saskatchewan Housing Corporation	49,647	80,150	—	9,391	—
Saskatchewan Power Corporation	361,565	430,707	198,170	80,386	212,507
Saskatchewan Telecommunications	136,355	100,000	22,641	14,497	—
Agricultural Credit Corporation of Saskatchewan	33,000	20,434	13,517	—	1,045,645
Crown Investments Corporation	100,000	75,000	20,000	158,000	114,728
Saskatchewan Land Bank Commission	35,000	9,500	—	—	—
Saskatchewan Mining Development Corporation	184,065	188,371	—	82,950	48,853
Saskatchewan Agricultural Returns Stabilization Fund	3,712	25,486	16,073	8,767	22,366
Demand Bank Loan	—	—	5,000	—	—
Increase in Working Capital Advances	14,659	—	—	—	—
Other	42,839	51,963	51,347	152,547	303,110
Total Loan Disbursements	1,062,875	1,105,001	406,748	561,261	1,907,726
Investments					
NewGrade Energy Inc.	—	—	—	734	—
Crown Investments Corporation of Saskatchewan	100,000	—	—	—	—
Saskatchewan Mining Development Corporation	50,000	—	—	—	—
Saskatchewan Oil and Gas Corporation	34,700	28,000	—	—	—
Investment in Agricultural Land and Related Assets:					
Recovery of Investment	—	—	—	577	580
Other	—	—	69	1,715	240
Total Investment Disbursements	184,700	28,000	69	3,026	820
Deposits					
Crown Entities	67,355	110,393	114,174	160,443	86,754
Sinking Fund	22,815	22,125	24,198	21,836	20,748
Conditional Receipts	—	752	—	380	—
Total Deposit Disbursements	90,170	133,270	138,372	182,659	107,502
Total Disbursements	$1,337,745	$1,266,271	$ 545,189	$ 746,946	$2,016,048
Total Excess of Disbursements Over Receipts	$1,109,989	$ 978,669	$ 151,052	$ 511,541	$1,479,239

(see accompanying notes)

Government of the Province of Saskatchewan
Combined Funds
Statement of Financing and Changes in Financial Position

	For the Year Ended March 31				
	1982	1983	1984	1985	Preliminary 1986
	(Thousands of Dollars)				(unaudited)
Cash Requirement					
Revenue and Expenditure					
Expenditure	$2,524,494	$2,918,301	$3,064,887	$3,295,354	$3,632,623
Revenue	2,663,702	2,691,126	2,733,493	2,915,558	3,048,502
	(139,208)	227,175	331,394	379,796	584,121
Loan, Investment and Deposit					
Disbursements	1,337,745	1,266,271	545,189	746,946	2,016,048
Receipts	227,756	287,602	394,137	235,405	536,809
	1,109,989	978,669	151,052	511,541	1,479,239
Net Cash Requirement	970,781	1,205,844	482,446	891,337	2,063,360
Financing					
Proceeds from Debt	2,491,690	3,217,558	3,618,867	4,530,114	6,940,973
Repayment of Debt	1,553,051	2,123,995	2,925,601	3,687,570	4,987,613
	938,639	1,093,563	693,266	842,544	1,953,360
Net Increase (Decrease) in Cash, Short-Term Loans and Investments	(32,142)	(112,281)	210,820	(48,793)	(110,000)
Write-down of Short-Term Investment	—	—	—	(1,221)	—
Cash, Short-Term Loans and Investments, Beginning of Year	316,566	284,424	172,143	382,963	332,948
Cash, Short-Term Loans and Investments, End of Year	$ 284,424	$ 172,143	$ 382,963	$ 332,949	$ 222,948

(see accompanying notes)

Government of the Province of Saskatchewan
Combined Funds
Notes to the Financial Statements

1. **Significant Accounting Policies**

General Policies

1a. **Reporting Entity**

The Combined Funds represent a combination of the financial transactions for the Consolidated Fund and the Saskatchewan Heritage Fund. The combined funds financial statements have been designed primarily to provide an accounting of the financial resources appropriated by the Saskatchewan Legislature. The Consolidated Fund is the general fund of the Province into which all public monies received are credited except where the Legislative Assembly has directed otherwise. The Saskatchewan Heritage Fund is a fund established by the Legislative Assembly to receive all nonrenewable resource revenues and certain other revenues as specified in the Heritage Fund (Saskatchewan) Act.

These financial statements are not intended to be summary financial statements that provide a full accounting of the financial affairs and resources of all the entities for which the Government of Saskatchewan is responsible. The financial transactions of other crown entities such as provincial crown corporations, agencies, boards and commissions are reported separately. Only those transactions pertaining to the receipt of money from or payment of money to the Combined Funds are reflected in these statements. Accumulated surpluses or deficits of these entities are not included.

A variety of special purpose and other funds are administered by the Minister of Finance. Included within these funds are superannuation funds over which the Minister provides general administrative support, trust monies held for third parties under various arrangements, and special purpose monies held for specified uses. The assets, liabilities, and residual balances of these are maintained and reported separately from those of the reporting entity.

1b. **Principles of Combination**

The financial transactions for the Consolidated Fund and the Saskatchewan Heritage Fund are added together, or combined. Transactions between the funds, such as the dividend paid to the Consolidated Fund by the Saskatchewan Heritage Fund, are eliminated.

1c. **Basis of Accounting**

The financial statements are prepared using a modified cash basis for a fiscal year commencing on April 1 and ending on March 31. Revenues are recorded as received and expenditures are charged to the accounts when payment is made. In addition, revenues received in the 30 days of April in respect of revenue raised up to March 31 of the preceding fiscal year are taken into revenue of the preceding fiscal year, and payments made during the 30 days of April which are for goods and services received in the preceding fiscal year are reported as expenditures of the preceding fiscal year.

1d. **Classification of Financial Transactions**

In accounting for the financial transactions, a distinction is drawn between those transactions which affect the net debt and those which affect only recorded assets and liabilities. This segregation originates from the net debt concept. The net debt of the Province is the difference between recorded liabilities minus assets and represents the difference between accumulated revenues and accumulated expenditures. Since revenues and expenditures only affect the net debt, financing activities and transactions which arise from the financing activities (lending and investing) only affect recorded assets and liabilities. Accordingly, transactions are recorded within three categories: Revenue and Expenditure, Lending and Investing, and Financing Activities.

- Revenue and Expenditure

Revenue and expenditure relate to normal operating activities.

- Revenue

Revenue includes revenues raised through taxation, premiums, fees, licences and permits, receipts from the Federal government under fiscal arrangements and shared-cost programs, income from investments and dividends or transfers from other funds and accounting gains on the sale of certain agricultural lands.

- Expenditure

Expenditure includes payments for goods and services, salaries, transfer payments to individuals, municipalities and institutions, subsidies and grants, the acquisition or construction of fixed assets, and interest on public debt.

- Lending and Investing

These transactions result from lending and investing functions which include the Province's lending and investing activity in various crown entities, other organizations and individuals, in Agricultural Land and Related Assets acquired for resale and also, the administration of funds held for certain crown entities.

- Financing Activities

Financing activities are the borrowing and repayment transactions of the province and include the borrowing on behalf of various crown entities.

- Assets and Liabilities

The majority of the assets and liabilities recorded in the statements are a result of the intermediary activity of borrowing on behalf of various crown entities. In

general terms assets will consist of cash and short-term investments, advances and loans to or investments in crown entities and other organizations and individuals. Capital assets are treated as an expenditure in the year of purchase.

Liabilities consist of promissory notes, treasury bills and debentures to be repaid to outside parties and amounts that are due to provincially created crown entities.

- Revolving Fund Transactions

Various revolving funds have been established to provide services to the government or the public. Each of these have statutory authority to make payments out of The Consolidated Fund for the provision of specified services.

Except for transactions relating to loans and advances to third parties, any net cash expenditure on behalf of a revolving fund is classified as an expenditure. Any net cash revenue is classified as a reduction in expenditures. Loans and advances to third parties are classified as lending and investment transactions, and any amounts outstanding are shown as an asset.

Specific Policies

1e. **Cash and Short-Term Investments**

- Cash

Cash recorded is the balance on hand in the Combined Funds at March 31, adjusted for transactions during the 30 days following the end of the fiscal year relating to the reporting fiscal year.

- Short-Term Investments

Short-term investments represent those investments purchased under authority of The Department of Finance Act and The Heritage Fund (Saskatchewan) Act. These investments consist mainly of chartered bank notes, treasury bills, commercial paper and bonds maturing within one year.

Short-term investments are carried at cost. Any gain (loss) on disposal of short-term investments is recorded as revenue (expenditure).

1f. **Short-Term Loans to Crown Entities**

These represent interest bearing loans made for a period of less than one year. Short-term loans are valued at the principal amount outstanding.

Interest received on short-term loans is applied to offset the interest paid on the government's share of public debt.

1g. **Medium- and Long-Term Loans to Crown Entities**

These are loans made for a period of greater than one year to crown corporations, boards and commissions and generally have fixed terms of repayment. With the exception of the Saskatchewan Grain Car Corporation, the loans are all interest bearing.

Loans are valued at cost. In cases where the liabilities of a crown entity significantly exceed the estimated realizable value of its assets and the accumulated deficit is not funded by an appropriation, the loan carried will be written down. All writedowns are charged directly to equity.

Where the Province obtains the funds for making the loans through issuing of debentures, the crown entities are required to provide the funds to repay debt. Where sinking fund requirements are attached to the underlying debt issue, crown entities must reimburse the Province for payments made to the sinking fund. Accordingly, the crown entities equity (i.e. contributions and earnings) in the sinking funds reduce the recorded value of loans and advances.

Interest received from crown entities is offset against the government's interest expense in debt issues.

1h. **Other Loans**

Other loans are those made to nongovernment agencies or individuals and are subject to a variety of interest rates and terms of repayment.

Other loans are carried at the principal amount outstanding and will be revalued when it becomes evident that they are uncollectible. Any write- downs reduce the asset and are charged directly to equity.

Interest received from these loans is recorded as revenue.

1i. **Loan to the Saskatchewan Agricultural Returns Stabilization Fund**

Loans have been made to the Cow-Calf-to-Finish Plan, Feeder-Finish Plan and the Saskatchewan Hog Assured Returns Program. The loans are all interest-bearing except for an amount of $13,127,000 relating to the 50 Purchased Feeders option under the Cow-Calf-to-Finish Plan.

These plans are reviewed annually and when it becomes evident that the plans will be unable to repay the loans in whole or part, an appropriate revaluation will be made. All write-downs are charged directly to equity.

1j. **Investments in Crown Entities**

Investments in crown entities represent long-term equity advances which are non-interest bearing and have no fixed terms of repayment.

Investments are valued at original cost. Revaluation of the investment will occur when the liabilities of the crown significantly exceed the net realizable value of its assets and the accumulated deficit is not funded by appropriation. Any write-downs reducing the carrying value of the investment are charged directly to equity.

Revenues from the investments (dividends) are recorded as revenue.

1k. **Investment in Agricultural Land and Related Assets**

The Heritage Fund (Saskatchewan) Amendment Act, 1983 transferred the assets and liabilities of the former Saskatchewan Land Bank Commission to the Agricultural Division of the Saskatchewan Heritage Fund effective April 1, 1983. Investment in Agricultural Land and Related Assets represents the cost of land and improvements held for resale.

Sales of these lands and improvements are recorded as a recovery of investment in amounts equal to the cost and any gains are recorded as revenue when received. Where the sale involves a long-term sales agreement, the amount equal to the cost of the investment sold is recorded as an asset; any amount due in respect of a gain on the sale is recorded as revenue only upon collection. Any loss on the sale of these lands and improvements is charged to equity.

1l. **Investments in Other Enterprises**

These represent investments in nongovernment enterprises. These investments are carried at cost.

The investments will be revalued when it becomes evident that there has been a permanent reduction in the value of the investment.

Any write-down of an investment is charged to equity.

1m. **Public Debt**

Public debt represents obligations of the government to outside parties arising from its borrowing activities to finance government operations or to finance loans to crown entities. Public debt consists of promissory notes, treasury bills and debentures.

- Borrowing on Behalf of Crown Entities:

Where the government performs the intermediary function of borrowing on behalf of crown entities, the funds required to repay the principal amount of the debt attributable to these entities are reimbursed by them.

Because this debt is reimbursable, interest received from the crown entities is offset against the interest paid on the debt.

All debentures due in a foreign currency will be repaid when due by these entities in requisite amounts. For reporting purposes, all debentures due in foreign currency have been converted to the Canadian dollar equivalent at the exchange rate in effect at March 31.

- Investment in Agricultural Land:

Debt acquired for the purpose of financing the Investment in Agricultural Land now held by the Saskatchewan Heritage Fund but formerly held by the Saskatchewan Land Bank Commission is considered to be fully reimbursable from the proceeds from the sale of the Agricultural Lands to be received by the Heritage Fund. The interest paid on the public debt which is considered to be fully reimbursable from the lease fee revenue on the lands, received in the Farm Purchase Program Fund, is offset against the interest paid on the debt. To the extent lease fees are insufficient for this purpose, an appropriation of funds from the Saskatchewan Heritage Fund is made to cover the deficiency and is classified in the financial statements within "Agriculture".

The balance of the public debt is borrowed for the purpose of the Province. The interest paid on this portion is shown as Interest on Public Debt under the Department of Finance in the Statement of Revenue and Expenditure.

- Promissory Notes

Promissory notes are issued to cover temporary insufficiencies of the Consolidated Fund and for funding short-term advances to crown entities.

Promissory notes are carried at face value.

- Treasury Bills

Treasury bills are issued to cover temporary insufficiencies of the Consolidated Fund and for financing 50 per cent of the Province's share of the cost of the South Saskatchewan River Development Project (Saskatchewan Power Corporation).

Treasury bills are carried at par.

- Debentures

Debentures are issued to finance activities of the Province and for funding long-term loans to crown entities.

Debentures are carried at par. In the year in which debentures are issued, discounts are charged to expenditure and any premiums are recorded as revenue. Where borrowing is made to finance loans to crown entities, all expenses including discounts are charged directy to the crown entities and premiums are paid to the crown entities.

- Sinking Funds

The Province has a general sinking fund into which payments are made on most public debenture issues. Annual payments to the general sinking fund under this policy have been based on 1 per cent or 1 1/2 per cent of the principal amount outstanding of the applicable debenture issued. The Province requires that it be reimbursed by crown entities for all sinking fund payments made on debt incurred on behalf of crown entities. Notwithstanding this requirement, the Province assumes direct responsibility for all payments to sinking funds.

Sinking fund monies are invested in Province of Saskatchewan debentures, other provincial government or provincial government guaranteed securities, federal government or federal government guaranteed securities, or high grade Canadian municipal securities until such time as the monies are required for retirement of debt. Sinking fund monies are subject to noncash calculations regarding earnings in accordance with the following accounting policies:

- Interest on long-term investments is accrued. Short-term investment earnings are recognized as received.

- Premium/discount on long-term investments is amortized by type of security to maintain a constant yield over the life of the investment.

- Gains/losses on the sale of long-term investments are recognized in the period the sale was transacted.

Earnings of the sinking funds are retained within the sinking funds and accordingly, are not recorded as revenue but are credited directly to equity.

1n. **Amounts Payable to Crown Entities**

These represent amounts held on deposit in the Consolidated Fund on behalf of certain crown entities at no interest.

1o. **Conditional Receipts**

The Province receives funds for which the ultimate disposition is not immediately known or which is subject to some future action beyond the control of the payor. These funds are deposited to the credit of a liability account entitled "conditional receipts". The balance reflected is that for such funds held as at March 31.

1p. **Interest on Public Debt**

Interest on public debt includes interest paid by the Province on promissory notes, treasury bills and debentures, but does not include interest on public debt borrowed by the Province on behalf of crown entities (Note 1m).

1q. **Change in Accounting Policy**

- Foreign Debt

A change in accounting policy with respect to accounting for foreign debt was implemented during the 1984-85 fiscal year with retroactive application to the 1980-81 fiscal year to the 1983-84 fiscal year inclusive. All public debt and related loans to crown entities payable in foreign currency have been converted to the Canadian dollar equivalent at the exchange rate in effect at March 31.

The effect of the change in accounting policy is to increase debentures and loans to crown entities as follows:

Fiscal Years	
1981-82	$213,511,000
1982-83	309,549,000
1983-84	371,504,000
1984-85	518,008,000
1985-86	595,388,000

- Working Capital Advances

A change in accounting policy with regard to working capital advances was implemented during the 1982-83 fiscal year. Legislation was passed to establish Revolving Funds (Note 1d) and to transfer to them the assets and liabilities of the Working Capital Advance Accounts. The balance of the advances to the Working Capital Advance Accounts were written off to equity or charged to other assets during the 1982-83 fiscal year.

2. **Additional Information**

2a. **Contingencies**

- Guaranteed Debt

The Province has explicitly guaranteed the repayment of the principal and interest of certain bonds, debentures and loans of various organizations including crown entities.

The guaranteed debt is not a recorded liability until conditions exist or events occur which would require the Province to assume the repayment of the debt. At March 31, 1986 there were no organizations in receivership whose debt had been guaranteed.

- Litigation Matters

On December 19, 1983, an action was commenced against Saskatchewan Power Corporation and the Government of Saskatchewan claiming damages amounting in aggregate to $200 million. The claim alleged that through the building and operations of Squaw Rapids Dam on the North Saskatchewan River the flow and life of the river has been changed to the detriment of the plaintiffs and their style of life. The claim has not been actively pursued and accordingly no defense has yet been filed by either defendant although both intend to do so when required. The Saskatchewan Power Corporation and the Government of Saskatchewan have been advised that any claim the plaintiffs may have has been greatly exaggerated.

The Province is also named as defendant in various other legal actions relating to amounts in excess of $500,000, totalling approximately $11.1 million. The outcome of these actions is uncertain and the likely loss to the Province, if any, cannot be determined.

2b. **Equalization Payment**

Contained in receipts from other governments is a reduction to revenue of $22,913,000 for an equalization payment to the federal government resulting from an amendment to its calculation of equalization payments which occurred subsequent to March 31, 1982.

The amendment resulted in the Province being overpaid by $117,400,000 in total. By agreement with the federal government, this amount is being repaid by reducing other federal transfer payments over a five year period. At March 31, 1986, $22,913,000 remains outstanding and will be repaid in the next fiscal year.

2c. **Significant Long-Term Obligations**

The Province entered into a lease agreement with Saskatchewan Government Insurance in 1981 to lease an office building in Prince Albert, Saskatchewan for

a term of 30 years ending on April 30, 2011. The lease requires annual payments of approximately $1,600,000.

Effective April 1, 1984, the Province entered into a ten year purchase agreement with the Crown Investments Corporation of Saskatchewan to acquire an office building in Regina. The agreement calls for payments of approximately $2,900,000 annually for the ten year period ending on March 31, 1994.

Obligations under these lease agreements are treated as expenditures as paid.

2d. **Superannuation**

For certain pension plans the Province pays, out of the Consolidated Fund, part of the benefits and/or is responsible for any deficiency arising when the benefits exceed the assets available in the funds.

The following is a brief description of these plans:

- Public Service Superannuation Plan

This is an unfunded plan. All employee contributions are recorded as revenue of the Consolidated Fund, and all payments required are recorded as expenditures of the Consolidated Fund. The Province is responsible for any deficiency arising where the benefits exceed the assets available in the fund.

- Public Employees (Government Contributory) Superannuation Plan

This is a funded plan, with employee contributions being matched by the Province. A separate fund is maintained for receiving all contributions, with allowances and refunds being made from the fund based upon the contribution made and investment earnings allocated. The Province's contribution is recorded as an expenditure of the Consolidated Fund. Since benefits are based on accumulated contributions to the fund, the Province has no residual obligation.

- Teachers' Superannuation Fund

Teacher contributions are paid into a separate fund, with allowances and benefits being made from the fund. Teacher contributions on and after July 1, 1980 are matched by the Province, with these monies also being paid into the fund. The Province's contribution is recorded as an expenditure of the Consolidated Fund. The Province is responsible for any deficiency arising when retirement benefits and allowances exceed the assets available in the fund.

- Teachers' Annuity Fund

This is a funded plan for teachers who had never taught in the provincial school system prior to July 1, 1980 and entered the school system after that date. Teacher contributions are matched by the Province. Contributions are paid into a separate fund, with allowances and refunds being made from the fund based upon the contribution made and investment earnings allocated. The Province's contribution is recorded as an expenditure of the Consolidated Fund. Since benefits are based on accumulated contributions to the fund, the Province has no residual obligation.

- Teachers' Supplementary Allowances Fund

This fund was created in conjunction with the Teachers' Annuity Fund. A designated portion of contributions made by teachers into the Annuity Fund is paid into the Teachers' Supplementary Allowances Fund for the purpose of increasing allowances for cost of living and to pay survivor benefits to dependents of teachers. Teacher contributions are matched by the Province. The Province's contribution is recorded as an expenditure of the Consolidated Fund. Since benefits are based on accumulated contributions to the fund, the Province has no residual obligation.

- Members of the Legislative Assembly Superannuation Fund

This is a funded plan, with employee contributions being matched by the Province. The Province also contributes an annual payment and any other amounts that may be appropriated. Contributions are paid into a separate fund, with allowances and refunds being made from the fund. The Province's contribution is recorded as an expenditure of the Consolidated Fund. The Province is responsible for any deficiency arising when the benefits exceed the assets available in the fund.

- Judges of the Provincial Court Superannuation Fund

Employee contributions are paid into a separate fund with allowances, refunds, and transfers paid out of the fund. The Province is responsible for any deficiency arising when the benefits exceed the assets available in the fund.

Annuities and allowances made under the Magistrates Court Act (repealed) are also paid out of the Judges of the Provincial Court Superannuation Fund. Employees do not make contributions. The Consolidated Fund reimburses the Provincial Court Superannuation Fund for all payments to superannuates.

- Anti-Tuberculosis League Employees Superannuation Fund

Employee contributions are matched by The Saskatchewan Anti-Tuberculosis League. Contributions are paid into a separate fund with allowances, refunds, and transfers paid out of the fund. The Province is responsible for any deficiency arising when the benefits exceed the assets available in the fund.

- Saskatchewan Transportation Company Employees Superannuation Fund

Employee contributions are matched by the Saskatchewan Transportation Company. Contributions are paid into a separate fund with allowances, refunds, and transfers paid out of the fund. The Province is responsible for any deficiency arising when benefits exceed the assets available in the fund.

The following is a summary of the unfunded liability in respect of these pension plans as indicated in the most recent actuarial reports: (see table page 22)

2e. **Comparative Information**

Certain of the 1982 to 1984 figures have been reclassified to conform with the current year presentation.

			($ Thousands)	
			Unfunded Liability	
	Date of Report	Liability As At	Past Service	Future Service
Public Service Superannuation Plan	Mar. /84	Mar. /83	$ 992,489	$ 620,321
Teachers' Superannuation Fund	Sept./84	June /83	1,079,549	268,171
Members of the Legislative Assembly Superannuation Fund	Mar. /84	Mar. /83	15,096	1,305
Judges of the Provincial Court Superannuation Fund	Jan. /83	Jan. /83	6,330	N/A
Anti-Tuberculosis League Employees Superannuation Fund	Jan. /85	Mar. /84	1,238	(135)
Saskatchewan Transportation Company Employees Superannuation Fund	Jan. /85	Mar. /84	3,816	(1,158)
			$2,098,518	$ 888,504

N/A = Not Available

Total Debt of the Province

	As of March 31				
	1982	1983	1984	1985	Preliminary 1986
	(Millions of Dollars)(1)				
Promissory Notes					
Crown Corporations (2)	$ —	$ —	$ 233	$ 329	$1,464
Government of Saskatchewan	113	50	64	283	317
Total Promissory Notes	113	50	297	612	1,781
Treasury Bills					
Crown Corporations (2)	11	9	7	4	2
Government of Saskatchewan	130	325	445	455	651
Total Treasury Bills	141	334	452	459	653
Debentures					
Crown Corporations (2)	3,300	4,271	4,359(3)	4,717	5,058
Government of Saskatchewan	34	33	167	455	723
Other	—	—	185(3)	185	185
Total Debentures	3,334	4,304	4,711	5,357	5,966
Gross Debt	3,588	4,688	5,460	6,428	8,400
Less: Equity in Sinking Funds					
Crown Corporations	273	298	286	325	376
Government of Saskatchewan	15	17	25	28	33
Total Equity in Sinking Funds	288	315	311	353	409
Net Debt	3,300	4,373	5,149	6,075	7,991
Guaranteed Debt	230	270	374	465	493
Total Debt	$3,530	$4,643	$5,523	$6,540	$8,484
Components of Net Debt					
Crown Corporations (2)	$3,038	$3,982	$4,313	$4,725	$6,148
Government of Saskatchewan	262	391	651	1,16[illegible]	1,658
Other	—	—	185	185	185
Net Debt	$3,300	$4,373	$5,149	$6,075	$7,991

(1) Beginning in fiscal year 1985, all foreign currency debt has been stated in the equivalent Canadian funds based on the exchange rate in effect at March 31 of each year. Prior years' figures have been restated to reflect this change. The effect of this policy has been to increase gross debt of the Province as of March 31, 1986 by $595 million ($518 million for 1985).

(2) This debt was issued for the purposes of the Province's Crown corporations, and these entities are responsible for the repayment of interest and principal.

(3) The assets and related liabilities of the former Saskatchewan Land Bank Commission were transferred to the Agricultural Division of the Saskatchewan Heritage Fund in fiscal year 1984.

Crown Investments Corporation of Saskatchewan

Introduction

Saskatchewan's Crown corporations are involved in a broad range of activities including the provision of electricity and natural gas, telecommunications, resource development and financial and other services. Certain Crown corporations are commercial enterprises intended to be self-sustaining while others receive an annual appropriation to cover costs of administration and other expenses.

Traditionally the capital requirements of the Province's enterprises have been financed, with few exceptions, through direct obligations of, or advances by, the Province. Provincial legislation governing certain Crown corporations provides for the issuing of securities by these enterprises, with or without a Provincial guarantee. Pursuant to The Department of Finance Act, 1983, all borrowings by Provincial Crown corporations must be approved by the Minister of Finance for Saskatchewan.

Loans and advances to, and investments in, Crown corporations are carried at cost without allowance for their individual accumulated surpluses or deficits. In cases where liabilities of a Crown corporation significantly exceed the estimated realizable value of its assets, the loan or investment will be written down.

For administrative purposes, Saskatchewan's Crown corporations are categorized into two separate groups. The commercial enterprises are under the purview of Crown Investments Corporation of Saskatchewan (see narrative below). All other Crown corporations report directly to the Treasury Board Division of the Department of Finance.

Crown Investments Corporation of Saskatchewan

Crown Investments Corporation of Saskatchewan ("CIC") is a Provincial Crown corporation, without share capital, operating under authority of The Crown Corporations Act, 1978. CIC is responsible for administering Saskatchewan Government policy as it relates to those Crown corporations designated as being within the CIC group by Order-in-Council. At December 31, 1985, there were thirteen designated. For administrative purposes, CIC has grouped the corporations into three sectors: resources, utilities, and financial and services. The corporations provide a wide variety of services and sell various commodities in both domestic and international markets.

As a group, the corporations incurred a loss of $79 million for 1985 compared with net income of $66 million for 1984. The financial and services sector lost $9.8 million in 1985 compared with a loss of $14.1 million in 1984. The utility sector was somewhat below 1984 levels with net income of $45.6 million compared to $51.7 million in 1984. The most significant reduction, however, occured in the resource sector where a loss of $7.8 million was in sharp contrast to the net income of $83.2 million achieved in 1984.

During 1985, capital expenditures by the corporations totalled $643 million, compared with $618 million in 1984. Since 1982, capital spending of Crown corporations has amounted to $2,775 million, an average of $693.8 million per year. In addition, taxes and royalty payments made to the Province by the corporations were $114 million in 1985 compared with $125 million in 1984.

During 1985, total revenues increased to $2,138 million, up from $2,112 million in the previous year. Total assets under the administration of CIC grew from $6,687 million in 1984 to $7,063 million in 1985.

Major corporations in the CIC group are involved in the sale of commodities such as oil, uranium, potash and pulp. In 1985, world prices for commodities generally declined. It can be expected that the decline in world commodity prices, and in particular lower prices for potash and oil, will negatively affect the 1986 consolidated results of the CIC group of corporations.

Five corporations - Saskatchewan Power Corporation, Saskatchewan Telecommunications, Saskatchewan Mining Development Corporation, Potash Corporation of Saskatchewan and Saskatchewan Oil and Gas Corporation - constituted approximately 88 per cent of the total assets of the CIC consolidated group as at December 31, 1985. The following is a brief description of each of these corporations.

Saskatchewan Power Corporation

Saskatchewan Power Corporation ("SPC") was established by Order-in-Council in 1949 and formalized as a Crown corporation by an Act of the Legislative Assembly passed in 1950. SPC provides electricity and natural gas to the residents of Saskatchewan. It generates and delivers electricity to more than 390,000 customers and supplies natural gas to 263,000 customers.

On February 12, 1986, it was announced that agreement in principle had been reached with United States authorities for their participation in financing the construction of the Rafferty and Alameda Dams in southern Saskatchewan. These two dams will constitute a multi-purpose water management project that will have irrigation, flood control, recreational and industrial benefits.

The role of SPC will be to oversee the design and construction of the dams and related facilities on behalf of the newly formed Souris Basin Development Authority. A water supply sufficient to cool the first electric power generating unit at a new coal-fired power plant will be made available from the Rafferty Reservoir. Total cost of this 300 MW electric power generating unit, including SPC's contribution to the water management project, is estimated at $510 million.

SPC had consolidated net income of $1 million in 1985, down from $9.6 million in 1984. On March 3, 1986, the Public Utilities Review Commission ordered SPC to refund $4.3 million to gas customers according to their 1985 gas consumption. This refund is reflected in SPC's results for 1985. Although rates for electricity did not change in 1985, an interim rate increase of 7.5 per cent went into effect March 1, 1986.

Saskatchewan Telecommunications

Saskatchewan Telecommunications ("SaskTel") constructs, maintains and operates a Provincial telecommunications system in concert with similar systems throughout Canada. SaskTel's objective is to serve the communications needs of Saskatchewan residents economically and effectively. The

Crown Investments Corporation of Saskatchewan
Consolidated Statement of Financial Position

	At December 31,				
	1981	1982	1983	1984	1985
	(in thousands)				
Assets					
Current	$ 606,811	$ 785,447	$ 732,106	$ 769,700	$ 751,208
Investments	447,999	525,743	472,857	470,254	492,078
Property, Plant & Equipment	3,884,760	4,390,717	4,971,790	5,172,967	5,508,219
Deferred Charges	121,631	155,128	215,574	274,266	311,197
Total Assets	$5,061,201	$5,857,035	$6,392,327	$6,687,187	$7,062,702
Liabilities and Province's Equity					
Current	$1,049,279	$1,157,345	$1,091,706	$1,117,326	$1,403,442
Deferred Revenue	28,779	66,068	130,014	109,363	76,280
Long-term Debt	2,395,328	3,179,479	3,764,343	3,991,085	4,285,610
Province's Equity	1,587,815	1,454,143	1,406,264	1,469,413	1,297,370
Total Liabilities and Province's Equity	$5,061,201	$5,857,035	$6,392,327	$6,687,187	$7,062,702

Crown Investments Corporation of Saskatchewan
Consolidated Statement of Operations

	Fiscal Year Ended December 31,				
	1981	1982	1983	1984	1985
	(in thousands)				
Revenue					
Sales of Products & Services	$1,657,329	$1,613,648	$1,768,199	$1,994,592	$1,996,406
Revenue from Investments	74,641	80,730	75,783	56,223	69,836
Other	32,599	40,870	50,589	61,105	72,069
Total Revenue	1,764,569	1,735,248	1,894,571	2,111,920	2,138,311
Expenses					
Operating Costs other than those listed below	1,075,599	1,270,729	1,303,500	1,229,264	1,316,911
Interest	251,387	294,003	320,421	426,872	484,468
Depreciation and Depletion	191,218	201,868	216,453	271,394	282,724
Saskatchewan Taxes and Resource Payments	130,644	94,642	110,084	125,082	114,359
Total Expenses	1,648,848	1,861,242	1,950,458	2,052,612	2,198,462
Earnings before Extraordinary Items	115,721	(125,994)	(55,887)	59,308	(60,151)
Extraordinary Items	—	—	—	7,684	(19,094)
Net Earnings (Loss)	$ 115,721	$ (125,994)	$ (55,887)	$ 66,992	$ (79,245)

Note: During 1984, the Municipal Financing Corporation of Saskatchewan and The Saskatchewan Government Printing Company were transferred out of the Crown Investments Corporation of Saskatchewan consolidated group of corporations. The 1983 results have been restated to reflect this transfer as follows: consolidated assets reduced by $84.9 million, consolidated liabilities reduced by $86.9 million, consolidated reinvested earnings increased by $2 million, and consolidated loss increased by $1.1 million. For the years 1981 and 1982 the results have not been restated.

corporation operates according to a philosophy of "rate averaging" to ensure universal access to services.

SaskTel's experience in installing and operating the world's first large commercial fibre optic system has made it a leader in a technology that is in demand all over the world. Numerous countries have showed an interest in SaskTel's system and potential exists for the corporation to market its expertise internationally.

During 1985, SaskTel continued development on a 10-year project that is designed to replace electro-mechanical switching equipment with electronic digital switching systems. This is part of a larger program to have an all-digital network in place by the late 1990's.

In 1985, SaskTel recorded its best financial performance ever, a profit of $37 million, up from $35.6 million in 1984. Revenues increased from 1984 levels, primarily due to the growth in long distance calling. SaskTel did not seek a general rate increase from the Public Utilities Review Commission in 1985.

Saskatchewan Mining Development Corporation

Saskatchewan Mining Development Corporation ("SMDC") is involved in the exploration for and development of uranium and other hard rock minerals, excluding potash and sodium sulphate. Most of SMDC's activities are conducted on a joint venture basis with private sector partners.

The Key Lake mine, located in northern Saskatchewan, in which SMDC holds a 50 per cent interest, produced 11.1 million pounds of U_3O_8 in 1985, or about 92.5 per cent of its annual rated capacity of 12 million pounds. The Cluff Lake mine, also located in northern Saskatchewan, in which SMDC holds a 20 per cent interest, completed its fifth year of successful commercial operation producing 2.2 million pounds of U_3O_8.

SMDC is a 50.75 per cent shareholder in the Cigar Lake Mining Corporation, formed in 1985. This international joint venture operating company has a mandate to develop the Cigar Lake deposit in northern Saskatchewan, the world's richest uranium ore body. Drill indicated reserves are estimated at 285 million pounds U_3O_8 with an average ore grade of 14.4 per cent U_3O_8 and a further 100 million pounds U_3O_8 with an average ore grade of nearly 5 per cent U_3O_8. It is planned to develop these reserves to commercial production for the early 1990s.

The Star Lake gold project, in which SMDC has a 50 per cent interest and acts as operator, is moving towards a production date of spring 1987. Environmental approval for construction and development of a 220 ton per day mine/mill was granted in October of 1985. Indicated reserves are approximately 230,000 tons at 0.50 ounces of gold per ton.

SMDC reported net income of $18.0 million in 1985 compared with $15.2 million in 1984. Sales in 1985 increased to $174.6 million from $133.3 million in 1984. Cash provided by operations reached $100.8 million during 1985. This is a significant increase over the 1984 operating cash flow of $50.5 million.

Potash Corporation of Saskatchewan

Potash Corporation of Saskatchewan ("PCS") is the western world's largest producer of potash. Potash is a major component of agricultural fertilizer. PCS has production capacity of 5.6 million metric tonnes KCl, which represents 49 per cent of the Province's total capacity. It is estimated that PCS has recoverable reserves of 2 billion metric tonnes KCl.

PCS, through its wholly owned subsidiary, Potash Corporation of Saskatchewan Mining Limited, has five operating divisions at five separate mine sites. Three mines are wholly owned, one mine is 60 per cent owned, and one holding is in the form of ownership of potash ore reserves which are processed under a long-term operating agreement with International Minerals and Chemical Corporation.

PCS anticipates completing a $500 million expansion of its wholly owned Lanigan mine in 1986. This expansion, involving the latest technology, includes mining, milling, storage and shipping facilities. It is expected to increase annual potash production by 2 million metric tonnes of KCl.

Potash Corporation of Saskatchewan Sales Limited (a wholly owned subsidiary of PCS) directly markets 60 per cent of PCS's production, 55 per cent to the United States and 5 per cent within Canada. The remaining 40 per cent is sold through Canpotex Limited, a marketing group representing all Saskatchewan potash producers that sell potash outside North America.

PCS is investigating various diversification programs that would use potash as a feedstock to produce alternative fertilizers and industrial products. During 1985, PCS announced its intention to proceed with a 300,000 tonne sulphate of potash (K_2SO_4) plant contingent upon the results of a feasibility study expected to be completed during 1986. Such a facility, if constructed, would require an investment of approximately $75 million over a period of two years. Sulphate of potash is produced by combining potassium chloride and sulphate to produce a fertilizer that can be applied to chlorine sensitive crops such as citrus fruits and tobacco.

PCS reported a loss of $68.7 million in 1985, compared with $25.3 million net income in 1984. Sales revenues in 1985 were $195 million, down $77 million from 1984. Sales volume in 1985 was 3.4 million metric tonnes KCl, compared with 4.0 million metric tonnes in 1984.

Sales in North America, particularly the United States, were weak, primarily because of poor income in the farm sector for the second consecutive year. Consequently, potash supply exceeded demand forcing potash prices to drop significantly below the 1984 levels.

The net loss for PCS for 1985 includes an extraordinary charge of $19 million related to a proposed mine development site at Bredenbury, Saskatchewan. In the corporation's opinion, the site was unlikely to be developed in the foreseeable future and therefore costs previously included in deferred charges were written off.

Saskatchewan Oil and Gas Corporation

Saskatchewan Oil and Gas Corporation (Saskoil) explores for, develops, produces, transports and markets crude oil and natural gas in western Canada. In terms of oil production, Saskoil ranked among the top 20 oil and gas companies in Canada and among the top three oil and gas companies in Saskatchewan in 1984.

At December 31, 1985, Saskoil's proven producing reserves were 43.2 million barrels. In 1985, Saskoil had its second best year of production with a total of 4.9 million barrels being produced. With regard to exploration and development, Saskoil participated in the drilling of 86 exploration wells (28.5 net) and 437 working interest development wells (111 net).

In 1985, the Saskatchewan Government reorganized Saskoil to allow public participation in the ownership of the corporation. In December 1985, Saskoil made an initial public offering of common and preferred shares. The offering was in the form of 3,793,104 units, with each unit consisting of one common and two cumulative redeemable voting convertible second preferred shares. The units were fully subscribed, and Saskoil received proceeds of approximately $110 million. On January 14, 1986, Saskoil paid a dividend on $75 million to CIC. Following completion of the offering, CIC owned 81 per cent of the outstanding common shares of Saskoil representing 58 per cent of the voting shares.